

MINUTES

MONTANA SENATE 57th LEGISLATURE - REGULAR SESSION COMMITTEE ON TAXATION

Call to Order: By **CHAIRMAN BOB DEPRATU**, on March 9, 2001 at 8:05 A.M., in Room 405 Capitol.

ROLL CALL

Members Present:

Sen. Bob DePratu, Chairman (R)
Sen. Alvin Ellis Jr., Vice Chairman (R)
Sen. John C. Bohlinger (R)
Sen. Mack Cole (R)
Sen. Pete Ekegren (R)
Sen. Jon Ellingson (D)
Sen. Bill Glaser (R)
Sen. Dan Harrington (D)
Sen. Emily Stonington (D)

Members Excused: None.

Members Absent: None.

Staff Present: Lee Heiman, Legislative Branch
Deb Thompson, Committee Secretary

Please Note: These are summary minutes. Testimony and discussion are paraphrased and condensed.

Committee Business Summary:

Hearing(s) & Date(s) Posted: Senate Bill 439, 3/2/2001
Executive Action: Senate Bill 374 as amended 5-4

HEARING ON SENATE BILL 439

Sponsor: SENATOR LORENTS GROSFIELD, SD 13, Big Timber

Proponents: SENATOR JOHN BOHLINGER; Erik Burke, MEA-MFT; Kay Unger, UFA-UMT; Amy Sullivan, Montana Tourism Coalition; Stuart Doggett, Montana Innkeepers; Betsy Baumgart, Tourism Advisory Council; Charles Brooks, Billings Area Chamber of Commerce

Opponents: None

Opening Statement by Sponsor: SENATOR GROSFIELD presented the bill. He said the bill addressed changes in the bed tax. He noted the consumers would pay the tax, not the industry. The consumers are tourists, business travelers and residents. The tax rate would go from 4% to 9%. He pointed out the tax credit of 56% which would allow an income tax credit for the entire amount of the increase for Montana residents. This is not a tax increase on Montanans. It is a tax increase on non residents.

EXHIBIT (tas54a01) He described highlights in the bill. **{Tape : 1; Side : A; Approx. Time Counter : 0 - 27.5}**

Proponents' Testimony: SENATOR JOHN BOHLINGER said he thought this was a good idea as it was a consumer tax paid by the taxpayer. It was a bold increase from 4-9% but became a credit back to the Montana taxpayer. It was important to see how the \$25 million dollars of revenue would be allocated. It would be used to fund programs that we presently do not have budgets for. The Heritage Preservation, and Cultural and Aesthetic Trusts will be reinvested. The tax raised to 9% is still less than the national average, which is 12%. This will not price Montana out of the tourism market. People will come and pay the tax and it will not interfere with the economy or this industry. **{Tape : 1; Side : B; Approx. Time Counter : 0 - 1.2}**

Erik Burke, representing MEA-MFT, supported the bill. He felt this was good legislation for the state of Montana. He described the difficult circumstances faced by Montana regarding the energy problem and the layoffs. There are problems in the economy and it would not be wise to let public services erode, as they would be needed more than ever. These issues are public safety and public health. There are particular concerns for public education. This bill would provide a growing revenue source. The impact is primarily on those out of state visitors who visit Montana. **{Tape : 1; Side : B; Approx. Time Counter : 1.2 - 5.4}**

Kay Unger, representing the faculty of the University of Montana, spoke in support of the bill. She pointed out educational facilities around the state and felt there was a prime need that could not be satisfied without additional revenue. This bill provides a small amount of additional revenue. Some of it could be used for the students of higher education. Without some kind of additional funds, not found in HB 2 in its current form, tuition at the university will go up 13% a year or academic programs would be cancelled. She described paying the bed tax when she was in Georgia of 20%. There was no alternative but to pay the tax. If a person were to make plans on visiting Montana based on the bed tax and choose to avoid the state by swinging

through Wyoming or Canada - they would find the bed tax to be higher. She urged the committee support the bill. **{Tape : 1; Side : B; Approx. Time Counter : 5.4 - 9.9}**

Opponents' Testimony: Amy Sullivan, Montana Tourism Coalition, testified against the bill. She clarified there was statutory appropriation and oversight. She talked about the benefits brought by visitors to the state, such as \$1.64 billion dollars injected into the economy from the bed tax and almost 30 thousand jobs. The tourism industry does help Montana students. A lot of the jobs available in the industry help students stay in school. As the bed tax revenues have grown, there has been more programs. There is \$200 thousand dollars taken out of the bed tax to pay for the Lewis and Clark Bicentennial Commission. One hundred thousand dollars a year is taken out of the Travel Montana budget to help regional assistance programs to help tourism countries within the state that are underfunded, who do not collect enough of the bed tax. She described other programs that were funded directly from this tax collection. She felt the 9% was too high. **{Tape : 1; Side : B; Approx. Time Counter : 9.9 - 14.9}**

Stuart Doggett, representing Montana Innkeeper's Association, testified against the bill. He described the positive things that were already being done at a lot lower tax rate for consumers who pay the bed tax. The current program is working. It is not fair to ask one industry to collect this high of a tax. He pointed out the increase of the tax would provide a windfall for several departments. They may be deserving but questioned whether they were ready to spend that much money effective July 1 appropriately and adequately. **{Tape : 1; Side : B; Approx. Time Counter : 13 - 19}**

Betsy Baumgart, Chair of the Tourism Advisory Council, testified about the bill. She questioned the rebate as the benefits received in the cultural facilities would be worthwhile. She described the process with the regional tourism countries that submit marketing plans and budget plans, which was a responsible way to oversee the monies. The innkeepers are not interested in getting paid to collect the bed tax. This was not an issue with them. She submitted five letters in opposition.

EXHIBIT (tas54a02)

Charles Brooks, representing the Billings Chamber of Commerce, testified in opposition to the increase of bed tax. He addressed two issues. He felt a sales tax proposal would address the overall need rather than targeting the tourism industry. This was a substantial increase to just one industry. A major overhaul to the tax system was needed not just targeting certain industries. He noted deep concerns when the convention and

business bureau must go to local government. This was creating an adversarial role and was inappropriate. The use of the funds have been successful in the Billings marketing area and with the 4% tax would continue to be successful in bringing visitors to the area. *{Tape : 1; Side : B; Approx. Time Counter : 19 - 22.8}*

Informational Testimony: Clint Blackwood, State Bicentennial Commission; Matthew Cohn, Travel Montana

Clint Blackwood, said as a representative of the Bicentennial Commission he wanted to provide some information. He distributed a map of the Lewis and Clark Trail system in Montana.

EXHIBIT (tas54a03) He described the planning that was under way. There is a Master Plan at the Commission level. There were 700 projects but this was boiled down to a management level of tier one and tier two projects. He mentioned some financial need of the tier one projects - such as the community, tribal and statewide projects in that category - there could up to 13-15 million dollars of need for projects. There are a lot of projects people would like to do around the state. Visitation estimates are from 4-8 million additional non resident visitors will travel to Montana during the bicentennial time frame. *{Tape : 1; Side : B; Approx. Time Counter : 22.8 - 25.8}*

Arnie Olson, Director of the Montana Historical Society, presented written testimony and a packet of flyers and information. **EXHIBIT (tas54a04)**

Questions from Committee Members and Responses: SENATOR ELLIS asked who would be applying for the credit. **SENATOR GROSFIELD** pointed out there may not be too many apply for the credit for the first year. *{Tape : 2; Side : A; Approx. Time Counter : 0 - 2.6}*

SENATOR HARRINGTON asked if the rental car tax should be considered going to the general fund. **SENATOR GROSFIELD** commented that the rental car tax would need to fit the title. *{Tape : 2; Side : A; Approx. Time Counter : 2.6 - 13}*

SENATOR BOHLINGER asked about the growth in the industry, the \$1.84 billion dollars, the tourism jobs and the trend of travelers. **Mr. Doggett** replied the surrounding states had high bed tax rates. The northwest region has been growing.

SENATOR STONINGTON asked about the legislative audit regarding the bed tax money and the oversight. **Mr. Cohn** described how the presentations were made by the Department of Commerce every Session. **EXHIBIT (tas54a05)**

Closing by Sponsor: **SENATOR GROSFIELD** closed. He felt this would be needing oversight from the Legislature. He pointed out that some of the growth of tourism was attributable to the advertising efforts showing Montana as the "last best place". He said the bill actually would put \$9 million dollars into one of the bright spots of our economy that is growing. *{Tape : 2; Side : A; Approx. Time Counter : 13 - 17.2}*

CHAIRMAN DEPRATU suggested the bill needed work on amendments. He appointed a subcommittee to work on this bill, **SENATOR BOHLINGER, CHAIR, SENATORS COLE AND HARRINGTON.**

EXECUTIVE ACTION ON SENATE BILL 374

SENATOR GLASER MOVED DO PASS. A memo from the Department of Revenue was distributed. **EXHIBIT(tas54a06)** Mr. Heiman informed the committee the amendments had already been adopted. He described the examples to demonstrate statewide average values. **EXHIBIT(tas54a07)**

SENATOR ELLIS commented that he could not support the bill. Once the reappraisal was in effect it would be easier to see discrepancies. He pointed out the bill would not fix the overall problem.

SENATOR STONINGTON said she did not support the bill. She pointed out the extension had been given and had not solved the problem. She had served on prior study teams and the problem had not been solved.

CHAIRMAN DEPRATU said this two year extension was needed, otherwise Montanans would be pushed out of their places quickly. He felt it was serious and there had been unusual circumstances where land values and properties had tripled and more. The effect in the future will take lower income and retired people or those with modest incomes where these taxes will hurt them.

The question was called. The motion **PASSED** 5-4 on a roll call vote.

ADJOURNMENT

Adjournment: 10:06 A.M.

SEN. BOB DEPRATU, Chairman

DEB THOMPSON, Secretary

BD/DT

EXHIBIT (tas54aad)